

APPENDIX F

LOW INCOME TAX CREDITS

LIST OF MONTANA PROJECTS

LOW INCOME HOUSING TAX CREDIT (LIHTC) BASICS

- The LIHTC is a fixed percentage of certain eligible costs. The credit is provided for a project each year for 10 years.
- Low income housing developers are able to raise equity for projects by "selling" the tax benefits of LIHTC's to limited partners. Under this program, the amount of equity raised can be substantial. The result is a further narrowing of the financing gap found in most low income housing projects.

□ **Types of Credits and Applicable Percentage**

- For non-federally assisted new construction or substantial rehabilitation, present value equal to 70% of qualified basis or approximately 9% per year for ten years. Substantial rehabilitation now defined as expenditures during 24 months equal to the greater of \$3,000 per low-income unit or 10% of adjusted basis; only expenditures on low-income units or substantially benefitting such units may be computed.
- For federally assisted new construction or substantial rehabilitation projects, present value equal to 30% of qualified basis or approximately 4% per year for ten years.

Definition of federal assistance is tax exempt bonds or below market federal loan, i.e., Section 515.

- For acquisition of existing buildings, present value equal to 30% of qualified basis (approximately 4% per year). Commencing with 1990 products building must also undergo substantial rehabilitation in order to obtain the acquisition credit. For existing buildings, must be a period of at least 10 years between the date of acquisition by the taxpayer and the date it was last placed in service or substantially improved.
- **"Eligible basis"** of a new project is its adjusted basis, generally development cost less the cost of land; for existing projects, eligible basis for acquisition credit is acquisition cost.
- **"Qualified basis"** -- The **"applicable fraction"** times the **"eligible basis"** equals **"qualified basis"**. The **"applicable fraction"** is the lower of the number of occupied **"low income units"** vs. total units or the floor space of occupied **"low income units"** vs. the total floor space.
- **"Low Income Units"** -- Threshold of either 20% of units are **"rent restricted"** at 50% of median or 40% of units at 60% of median; receive credit for additional units over threshold. Elect either 50% or 60% standard when project placed in service, and must generally meet targeting restrictions by end of first year of credit period.

- **"Rent Restricted"** -- Rent, including utilities, cannot exceed 30% of qualifying income. To calculate rent, certain number of occupants assumed to occupy a unit, depending on bedroom size (not actual occupants). Assumed family size is 1 person in studio and 1.5 persons per bedroom (e.g., rent in 2 bedroom unit is 30% of 3 person qualifying income). Restriction in effect during entire compliance period.
- **Credit Allocation by States**
 - Volume limitation:
 - Each state was allocated \$1.25 per person in the state for 1990 and 1991.

Example: State with 1,000,000 people allocated \$937,500 in 1990. New unsubsidized construction project of \$1,000,000 qualified basis would take \$90,000 of it. Once allocated, stays allocated for 10 years. Owner can add to credit basis in subsequent years but may need new allocation.
- **Who Can Use the Credit?**
 - Individuals can use the credit up to a deduction equivalent of \$25,000. This equals \$7,000 at the 28% rate. Cannot use credit against alternative minimum tax. Former \$200,000-\$250,000 limit repealed.
 - Corporations, other than sub-chapter S or professional service corporations can use the credit against ordinary income tax and also losses from project. Cannot use credit against alternative minimum tax. Corporation with five or fewer shareholders holding over 50% of the stock can only use credit against active income.

Caution! The following scenario is simplified to illustrate the "basics" of the LIHTC. There are many additional issues which were intentionally not raised. These important other issues are beyond the scope of this workshop, but should be explored prior to developing a project utilizing the LIHTC.

SIMPLIFIED CASE SCENARIO

- A local developer has proposed to use the LIHTC to develop 10 low-income rental units in Seamount Plains, USA. The total development costs for the project are estimated as follows:

The first year operating budget (proforma) is as follows:

- The first step is to determine the maximum first mortgage amount. Assuming a Debt Coverage Ratio of 1.15%, the maximum funds allowable for the repayment of principal and interest on the first mortgage is \$32,173 annually (\$37,000/1.15) or \$2,681 monthly. Therefore, the maximum first mortgage amount is \$305,502 (assuming a 10%, 30 year amortizing loan).
- The next step is to calculate the amount of equity that can be raised from the sale of tax credits. The calculation, in general terms, is as follows:

$$\begin{aligned}\text{Eligible Basis} &= \$610,000 \text{ (Total development costs - land value)} \\ \text{Qualified Basis} &= \$610,000 \times 100\% = \$610,000\end{aligned}$$

$$\begin{aligned}\$610,000 \times \approx 9\% \text{ New Construction Credit} &= \$54,900 \text{ Annual Credit} \\ \$54,900 \times 10 \text{ years} &= \$549,000 \text{ Total Value of Tax Credits}\end{aligned}$$

Potential limited partners have offered to buy the tax credits at \$0.50 for every dollar of future tax benefit. In this case, the limited partners are willing to contribute equity of \$274,500 today for future tax benefits of \$549,000.

- Based on the information provided above, the following analysis can be performed to determine the financing shortfall or gap.

It is almost always the case that additional funding is required, in addition to the equity provided through the sale of tax credits and the amount loan by private lenders. The availability of state and Federal programs make low income rental housing development feasible. (Warning: Use of federal funds in conjunction with the tax credit may have a dramatic effect on the calculation of credits.)

**ANALYSIS OF LOW INCOME HOUSING TAX CREDITS ALLOCATED
(1987 THROUGH 1992)**

<u>Project Name:</u>	<u>Location</u>	<u>Type</u>	<u>Date of Allocation</u>	<u>Credit Amount</u>	<u>Nb. of Units</u>
1987					
South Forty	Billings	New	12/29/87	\$380,520.00	100
Morelli Rentals	Havre	Rehab.	12/29/87	2,520.00	2
220, 222 11th Street	Havre	Rehab.	12/29/87	1,260.00	2
1427½ 4th Street	Havre	Rehab.	12/29/87	360.00	1
620, 622 1st Avenue	Havre	Acq./Rehab.	12/29/87	2,958.00	3
Elmore Hotel	Great Falls	Acq./Rehab.	12/29/87	231,826.00	60
301, 303 8th Street W.	Whitefish	New	12/29/87	1,952.00	1
305, 307 8th Street W.	Whitefish	New	12/29/87	1,952.00	1
1987 TOTAL				\$623,348.00	170
1988					
Single Family Residence	Havre	Rehab.	7/15/88	\$ 913.00	1
Heritage Apartments	Bozeman	Acq./Rehab.	8/03/88	94,383.17	28
Cherry Hill Village	Polson	New	10/17/88	85,616.01	54
Canyon Villas	Fort Benton	New	11/16/88	13,938.03	10
Hillside Apartments	Plains	New	11/30/88	11,600.18	9
1988 TOTAL				\$206,450.39	102
1989					
Franklin School	Great Falls	Acq./Rehab.	11/24/89	\$237,209.25	39
Pioneer Apartments	Scobey	Rehab.	12/01/89	13,980.00	11
Laurel Apartments	Laurel	Rehab.	10/23/89	9,016.00	8
N/A - 5 Plex	Havre	Acq./Rehab.	12/06/89	3,400.50	5
Kennedy Rentals	Great Falls	Acq./Rehab.	12/19/89	4,612.99	7
Pattee Street Apartments	Missoula	Rehab.	12/14/89	42,339.00	22
Centennial Apartments	Billings	New	12/19/89	26,462.00	9
McDonald Rental	Missoula	New	12/26/89	8,521.50	4
1989 TOTAL				\$345,541.24	105
1990					
Kalispell Senior Apartments	Kalispell	New	12/24/90	\$ 65,696.00	39
Columbia Arms	Columbia Falls	New	12/24/90	17,216.00	12
Heights Centennial Apartments	Billings	New	12/21/90	30,113.00	9
Burnt Fork Manor	Stevensville	New	12/13/90	37,178.00	30
Cherry Hill Village North	Polson	New	12/31/90	56,238.00	28
1990 TOTAL				\$206,441.00	118
1991					
Heights Centennial Apts. II	Billings	New	12/18/91	\$ 29,007.00	9
Cut Bank Villas	Cut Bank	New	12/18/91	31,659.00	19
Stonecreek Apartments	Whitefish	New	12/18/91	82,227.00	40
Winnett Apartments	Winnett	New	12/23/91	9,626.00	6
Lake Apartments	Medicine Lake	Acq./Rehab.	12/31/91	3,595.00	4
1991 TOTAL				\$156,114.00	78

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(1987 THROUGH 1992)
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<u>Project Name:</u>	<u>Location</u>	<u>Type</u>	<u>Date of Allocation</u>	<u>Credit Amount</u>	<u>Nb. of Units</u>
1992					
Wildflower Apartments	Missoula	New	6/29/92	\$370,000.00*	96
Shiloh Glen Apartments	Billings	New	6/18/92	370,000.00*	120
Deer Lodge Apartments	Deer Lodge	Acq./Rehab.	12/23/92	24,222.00	24
Meridian Pointe Apartments	Kalispell	New	12/23/92	283,266.00*	48
Fifth Street Apartments	Hardin	New	12/30/92	32,694.00	16
Milk River Group Home	Glasgow	New	12/29/92	10,724.00*	6
Brush Meadow Apartments	Billings	New	12/30/92	284,159.00*	60
		1992 TOTAL		\$1,379,735.00	370
		GRAND TOTAL		<u>\$2,917,629.63</u>	<u>943</u>

*Carry-over allocations, final allocations pending